

Message Text

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ACTION XMB-04

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FM AMCONSUL MELBOURNE

TO SECSTATE WASHDC 2727

INFO AMEMBASSY BANGKOK

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PASS EXIMBANK

FOR WARREN W. GLICK

E O 11652 N A

TAGS: EFIN

SUBJ: EXIMBANK CREDIT/GUARANTEE 3350/3351 GREENVILLE NICKEL PROJECT
(QNP) AUSTRALIA

1. REFER AMCONSUL GENERAL TELEGRAM 0535 OF MAY 2, 1975.

2. FURTHER DISCUSSIONS WITH FREEPORT OFFICIALS AND MAJOR LENDERS
LEAVE LITTLE DOUBT THAT UNLESS ALL LENDERS WILL AGREE IN
PRINCIPLE TO PROPOSED 1 3/4 YEARS OF CAPITALIZED INTEREST AND
SET BACK OF PRINCIPAL REPAYMENT SCHEDULES SO AS TO PROVIDE
PRINCIPAL MORATORIUM DURING 1975, 1976 AND 1977, AND METALS
EXPLORATION QUEENSLAND MEQ CAN AND WILL ARRANGE ITS A\$10 MILLION
(US \$13.3 MILLION) OF NEW DEBT, FREEPORT IS PREPARED TO ABANDON
PROJECT AND WRITE OFF ITS US\$35.3 MILLION INVESTMENT IN QNP.
FREEPORT HAS IMPOSED DEADLINE OF MAY 15, 1975 FOR AGREEMENT IN
PRINCIPLE BY ALL PARTIES.

3. GERMAN BANKS WITH A\$65 MILLION (US\$86.7 MILLION) UNGUARANTEED
AND ANZ GROUP OF UNGUARANTEED A\$30 MILLION (US\$40 MILLION) BY
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TELEX HAVE RELUCTANTLY AGREED IN PRINCIPLE TO PLAN, CONCLUDING

THAT CONTINUED LEADERSHIP BY FREEPORT ON FREEPORTS' OWN TERMS IS PREFERABLE TO ANY PRESENTLY FORSEEABLE ALTERNATIVE.

4. THE AUSTRALIAN FINANCIAL INSTITUTIONS WHICH HAVE THE GUARANTEE OF THE GOVERNMENT OF QUEENSLAND (GOQ) WITH A\$70 MILLION AMONG THEM, REMAIN DIVIDED, SOME WILLING COOPERATE OTHERS PREFERRING TO EXERCISE THEIR GUARANTEES. EITHER WAY THERE WILL LIKELY BE DEFACTO AGREEMENT SINCE GOQ CAN HARDLY AFFORD NOT TO SUPPORT PROJECT TO EXTENT OF ITS LIMITED ABILITY. WE EXPECT FINANCIAL INSTITUTIONS TO AGREE TO THE PROPOSED PLAN ON THE CONDITION THAT THE GOQ GUARANTEE REMAINS INTACT FOR DEFERRED AMOUNTS AND IS EXTENDED TO COVER INTEREST ACCRUING ON DEFERRED INTEREST.

5. NONE OF MAJOR LENDERS DOUBTS THAT JAPANESE TRADING COMPANIES WITH THEIR A\$36 MILLION (US\$48 MILLION) OF SUBORDINATED DEBT (SECOND MORTGAGE) WILL ALSO AGREE.

6. OUR OPINION SHARED BY OTHER MAJOR LENDERS IS THAT EVEN WITH A\$47 MILLION (US\$63 MILLION) OF RESCHEDULED PRINCIPAL, A\$40.6 MILLION (US\$54.1 MILLION) OF CAPITALIZED INTEREST AND A\$20 MILLION (US\$27 MILLION) OF NEW DEBT FROM OWNERS, PROSPECTS FOR NORMAL PROFITABILITY ARE MARGINAL AT BEST. REASONS CITED ARE: (1) ORE BODY HAS RELATIVELY LOW NICKEL CONTENT WITH UNDIGESTABLE LATRITE DEPOSITS (2) LARGE CAPITAL OUTLAY COUPLED WITH HIGH OPERATING COSTS, ATTRIBUTABLE LARGELY TO AUSTRALIA'S HIGH INFLATION RATE AND TO THE UPWARD FLOAT OF THE AUSTRALIAN DOLLAR, IN WHICH MOST COSTS AND EXPENSES ARE DENOMINATED, AGAINST THE DOWNWARD FLOAT OF THE US DOLLAR, IN WHICH NEARLY ALL REVENUES ARE DENOMINATED; (3) SPECIAL VULNERABILITY OF PROJECTS TO HIGH COSTS OF ARABIAN OIL WHICH IS ESSENTIAL IN GREAT QUANTITY TO EXTRACTION PROCESS (LIGHT WEIGHT AUSTRALIAN OILS CANNOT BE USED); (4) NUMEROUS UNFORSEEN MECHANICAL DIFFICULTIES WHICH DELAY PRODUCTION AND REQUIRE COSTLY CORRECTIONS OR REPLACEMENT; AND (5) THE NEED FOR PROGRESSIVELY HIGHER SELLING PRICES ON AN ANNUAL GEOMETRIC PROGRESSION OF 10 O/O MERELY TO SUSTAIN THE BREAK-EVEN LEVEL.

7. IT IS CLEAR NONETHELESS THAT THE LENDERS HAVE NO REASONABLE ALTERNATIVE BUT TO ACCEDE TO FREEPORT'S PLAN AND HOPE FOR SOME DRAMATIC CHANGE IN THE NICKEL MARKET AND RESOLUTIONS TO LIMITED OFFICIAL USE

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QHP'S MAJOR PROBLEMS.

8. IT IS RECOMMENDED THAT EXIMBANK (AFTER CONFIRMING CHASE MANHATTAN'S AGREEMENT TO PROPOSED PLAN) PROMPTLY NOTIFY FREEPORT QUEENSLAND NICKEL LTD'S MELBOURNE OFFICE WITH COPY TO FREEPORT'S NEW YORK OFFICE THAT EXIMBANK AND CHASE ARE AGREEABLE IN PRINCIPLE TO THE CAPITALIZATION OF ITS INTEREST WHICH FALLS DUE BEGINNING WITH THE SECOND QUARTER OF 1975 THROUGH DECEMBER 31, 1975 AND

TO A SET BACK OF THE ENTIRE CHASE-EXIMBANK REPAYMENTS SCHEDULE
SO AS TO BEGIN REPAYMENTS UNDER THE SCHEDULE ON MARCH 31, 1979
RATHER THAN SEPT 30, 1976 AS NOW.

9. NOTIFICATION SHOULD REACH FREEPORT AT EARLIEST POSSIBLE
MOMENT TO LEND EXIMBANK'S SUPPORT TO PLAN, BUT IN NO EVENT
LATER THAN MAY 15, 1975. MASSY WILL RETURN TO EXIMBANK
ON TUESDAY, MAY 13, 1975.

10. FOR BANGKOK: PASS TO WOLFE
ON ARRIVAL.
BRAND

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